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FAIRMOUNT Energy Inc.

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TSX Venture Exchange

annual report 2005

For the year ended March 31, 2005

The building blocks are in place to foster success and create value for our shareholders.

MESSAGE TO SHAREHOLDERS

To our Shareholders:

2005 saw Fairmount Energy successfully restructured into a viable junior oil and gas company. The building blocks are in place to foster success and create value for our shareholders, and to this end Fairmount has done the following:

- Fairmount has attracted a success oriented management team having the skill set to play in this very competitive marketplace. They are fully aligned with our investor base with each having a significant equity stake in the Company. Each member of the team has been successful throughout their respective careers and we look forward to that continuing in Fairmount.

- Fairmount's initial joint venture projects at Harmattan and Warner, Alberta are bearing positive results. At Harmattan, we have drilled fourteen (14) wells with thirteen (13) economic producers. Only ten (10) are tied in with the balance of wells being currently pipelined into company-owned infrastructure. While Fairmount has a small working interest at approximately 10 percent, these Cardium wells are significant and up to twenty (20) more locations are in inventory to be drilled over the next several quarters. The Company's 50 percent working interest shallow gas property at Warner came on stream in mid April bringing four (4) original wells on stream. The Company has plans to drill up to eight (8) additional locations over the second half of the year.

- Fairmount raised approximately $8,500,000 of new equity in the past year, including the acquisition of Pharaoh Capital Inc., which resulted in Fairmount's common shares being listed for trading on the TSX Venture Exchange. At March 31, 2005, Fairmount had over $5,200,000 in working capital available for investment.

- The Company's capital structure is supported by approximately $21,000,000 in tax pools allowing it to protect ongoing and future cash flow streams thus maximizing reinvestment opportunities. Fairmount's capital structure makes it more competitive in assessing corporate and property acquisitions and more attractive when raising equity.

- Fairmount is guided by an experienced and successful group of directors having a range of technical and financial expertise. The board consists of only one management appointee with the balance being independent.

We have begun to capitalize on the initial foundation that we have built and look forward to creating value for our shareholders.

On behalf of the Board of Directors,

J. S. Durante

Joseph S. Durante
President & Chief Executive Officer
May 30, 2005

TABLE OF CONTENTS

OPERATIONS

Fairmount Energy's operations are in the two core areas of Harmattan (817 acres net) and Warner (4,593 acres net) in Alberta.

HARMATTAN

Fairmount holds various working interests ranging from 2.468 percent to 10 percent in lands at Harmattan, Alberta. Thirteen wells are drilled and cased, 10 wells are currently on production and 20 additional drilling locations have been identified for 2005.

Through the fourth quarter ending March 31, 2005, net production from Harmattan was 78 boe/d, consisting of 340 mcf/d of natural gas and 21 boe/d of oil and natural gas liquids.

WARNER

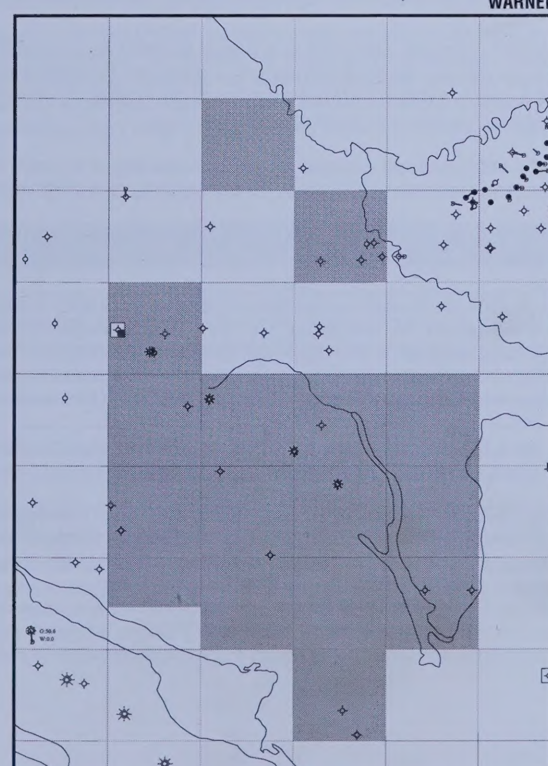
Fairmount has a 50 percent non-operated working interest at Warner, where four gas wells were recently tied in. Three additional Barons locations have been identified at a depth of 600 metres, as well as 10 single-zone Medicine Hat locations at 350 metres. Gas production is processed through a joint venture owned facility.

Current production net to Fairmount is approximately 150 mcf/d (25 boe/d) of natural gas.

Management's discussion and analysis provides further detail about Fairmount's operations.

HARMATTAN

WARNER



MANAGEMENT'S DISCUSSION & ANALYSIS

Management's discussion and analysis is a review of the results of operations and liquidity and capital resources of Fairmount Energy Inc. ("Fairmount" or the "Company"). The following discussion and analysis provided by Fairmount is dated May 30, 2005 and should be read in conjunction with the audited financial statements of Fairmount for the year ended March 31, 2005, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Certain information set forth in this management's discussion and analysis contains forward-looking statements. By their nature, forward-looking statements are subject to numerous risks and uncertainties, many of which are beyond Fairmount's control, including the impact of general economic conditions, industry conditions, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other industry participants, the competition for qualified personnel and management, stock market volatility and ability to access sufficient capital from internal and external sources. Readers are cautioned that the assumptions used in the preparation may prove to be incorrect and, as such, undue reliance should not be placed on forward-looking statements. Fairmount's actual results, performance or achievement could differ materially from those expressed in or implied by these forward-looking statements, and accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what benefits Fairmount will derive therefrom. Other than as required by law, Fairmount disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Per barrel of oil equivalent amounts have been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil equivalent (6:1). Barrels of oil equivalents ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio 6mcf:1bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

OVERVIEW

Prior to August 15, 2000, Fairmount was a growth stage technology company.

On August 15, 2000, Fairmount completed the sale of its research and development operations and ceased all research and development operations. With the cessation of operations, the focus of Fairmount became value maximization for its shareholders. In order to realize the remaining value, Fairmount needed to enter into a new line of business. Through the years ended March 31, 2003 and 2004 Fairmount focused on restructuring its balance sheet such that Fairmount was in a position to enter into a new line of business. This activity consisted primarily of converting all classes of share capital to Fairmount Common Shares from the several classes of preferred shares that had been created historically. At March 31, 2004, this process was, but for the single special preferred share, complete.

In June of 2004, Fairmount entered into an agreement to change the business of Fairmount to the exploration, development and production of petroleum and natural gas. Due to the change in the nature of Fairmount's business from the historical business of Fairmount, and in order to simplify the business of Fairmount going forward, Fairmount decided to distribute the biotechnology assets and liabilities associated therewith to the existing shareholders before changing the business focus of Fairmount and commencing operation as an oil and gas corporation.

On August 4, 2004, Fairmount completed the sale of substantially all its assets and liabilities to a subsidiary corporation and distributed the shares in that subsidiary corporation to the shareholders of Fairmount. The only remaining asset of Fairmount following this transaction was approximately $20,000 of cash.

On August 5, 2004, Fairmount commenced operations as an oil and gas exploration and development corporation by means of the acquisition of oil and gas properties and the raising of additional capital.

On March 24, 2005, the Company acquired Pharaoh Capital Inc. ("Pharaoh") through the issuance of 1,074,286 Common Shares. The transaction was carried out by means of a plan of arrangement (the "Arrangement") as a three-cornered amalgamation whereby a wholly owned subsidiary of Fairmount amalgamated with Pharaoh. Following the amalgamation and as part of the Arrangement, the amalgamated corporation distributed all of its assets and property to Fairmount and Fairmount assumed all liabilities on a winding up of the amalgamated corporation. The amalgamated corporation was dissolved in accordance with the *Business Corporations Act* (Alberta). Pursuant to the Arrangement, the shareholders of Pharaoh exchanged seven Pharaoh Common Shares for one Common Share of Fairmount.

Pharaoh was a TSX Venture Exchange listed company, and this transaction constituted its qualifying transaction. Following completion of the transaction, Fairmount's Common Shares were listed on the TSX Venture Exchange under the trading symbol "FMT" with trading commencing on May 3, 2005.

After giving effect to the Arrangement, former shareholders of Pharaoh held approximately 12.3 percent of the outstanding Common Shares of Fairmount. As the operations of Pharaoh did not constitute a "business" as defined under GAAP, the transaction was accounted for as an acquisition of Pharaoh via a share issuance by Fairmount for gross proceeds equal to the net monetary assets acquired and all costs of the transaction have been recorded as share issue costs.

Consistent with Fairmount being the acquirer, the consolidated financial statements of the Company for the year ended March 31, 2005 include the operating results of Fairmount prior to the transaction, and the results of the combined Company thereafter. All comparative figures are those of Fairmount. Any disclosure of share, option, or per share data in the financial statements reflects the post transaction share structure.

FINANCIAL RESULTS AND SELECTED FINANCIAL INFORMATION PREPARED IN ACCORDANCE WITH GAAP

	Year ended March 31, 2005	Three months ended March 31, 2005
Petroleum and natural gas revenue	$305,247	$277,062
Royalties	$(64,556)	$(57,228)
Interest income	$33,378	$26,465
Net revenue	**$274,069**	**$246,299**
Loss before income taxes	$(883,075)	$(259,644)
Recovery of future income taxes	$(1,615,200)	$(1,615,200)
Net income	$732,125	$1,355,556
Net income per share - Basic	$0.19	$0.17
- Diluted	$0.18	$0.17
Weighted average Common Shares outstanding		
Basic	3,856,835	7,756,855
Diluted	3,962,533	8,006,460

	March 31, 2005
Cash and cash equivalents	$5,631,752
Total assets	$9,869,888
Net working capital	$5,268,875
Total long term financial liabilities	$94,358

As the Company was reorganized during the year and commenced operations as an oil and gas company in August 2004, there is no comparative financial data for 2004, or quarterly information for periods prior to March 31, 2005.

RESULTS OF OPERATIONS

	Year ended March 31, 2005	Three months ended March 31, 2005
Wells drilled - gross	12	3
Wells drilled - net	1.2	0.3
Average daily production - boe	22	78
Capital expenditures	$4,228,394	$595,792

The term "cash flow" or "cash flow from operations" does not have any standardized meaning prescribed by GAAP and should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net income as determined in accordance with GAAP as an indicator of the Company's performance. In addition, the Company's determination of cash flow from operations may not be comparable to that reported by other companies. The reconciliation between net income and cash flow from operations is set out below. Fairmount believes this measure is meaningful because it is an indicator of funding sources for on-going efforts to replace production volumes and increase reserve volumes. The Company also presents cash flow from operations per share which is calculated using the same methodology as earnings per share; however this measurement also does not correspond to GAAP.

Reconciliation of cash flow from operations to net income:

	Year ended March 31, 2005 $	Three months ended March 31, 2005 $
Net income	732,125	1,355,556
Loss on sale of investment in YM Biosciences Inc.	1,564	-
Depletion, depreciation and accretion	156,025	136,491
Stock-based compensation	166,149	128,947
Issue of shares for reorganization costs	250,000	-
Future income taxes	(1,615,200)	(1,615,200)
Cash flow from operations	**(309,337)**	**5,794**
Cash flow per common share:		
Basic	$(0.08)	$0.00
Diluted	$(0.08)	$0.00

Negative cash flow from operations for the year of $(309,337) reflects the significant one time costs of restructuring the Company and the lack of operating revenue for nearly nine months of the year. In the fourth quarter, this cash flow turned marginally positive as the Company experienced production from its Harmattan property for the entire period.

	Year ended March 31, 2005	Three months ended March 31, 2005
Natural gas production (mcf/d)	94	340
Average selling price - natural gas ($/mcf)	$5.99	$6.03
Oil production (bbl/day)	2	8
Average selling price - oil ($/bbl)	$51.85	$51.45
NGL production	3	13
Average selling price - NGL ($/boe)	$42.28	$42.42
Average daily production (boe/d)	22	78
Natural gas sales	$206,066	$191,076
Crude oil and NGL sales	$99,181	$85,986
Royalties	$(64,556)	$(57,228)
Production Expenses	$(35,398)	$(32,803)
General and administrative expenses	$(222,857)	$(180,674)

From April until June of 2004, Fairmount focused its activities on the identification and evaluation of new business opportunities. In June, this came to fruition as Fairmount entered into an arrangement to transform itself from a biotechnology corporation to an oil and gas exploration and production corporation.

As part of this arrangement, and in order to maximize the focus of the new management team on the new business of Fairmount, Fairmount decided to dispose of all of the biotechnology assets and liabilities to its existing shareholders. This was accomplished between June and the beginning of August 2004.

Operational results for this period consisted of a net loss of approximately $26,000 due almost entirely to general and administrative expenses of approximately $25,000. Fairmount also incurred approximately $525,000 in restructuring costs with $250,000 of this being paid in kind through the issuance of Common Shares.

Commencing August 5, 2004, Fairmount became an active oil and gas exploration and development corporation. As part of the restructuring, Fairmount acquired a 10 percent interest in the Harmattan Cardium play being operated by a public oil and gas corporation. As at March 31, 2005, Fairmount (including acquired subsidiaries) has participated in the drilling of 12 gross (1.2 net) wells at Harmattan. These wells cost approximately $1 million gross ($100,000 to $120,000 net) to drill and complete and Fairmount has been successful with 11 gross (1.1 net) wells and 1 (0.1 net) non-economic well. Through the fourth quarter, net production from Harmattan was 78 boe/d consisting of 340 mcf/d of natural gas and 21 boe/d of oil, condensate and natural gas liquids. Bringing this production on stream required the building of a 15.2 kilometre gas line, a gathering system and an oil battery at a net cost of approximately $650,000. Fairmount owns a 10 percent interest in these facilities. Subsequent to year end, additional compression was added at the Harmattan property to remove capacity constraints. Additional drilling is ongoing with 2 gross (0.2 net) new wells being drilled since year end and ongoing work being performed to tie in wells.

On December 10, 2004, Fairmount closed the acquisition of Warner Joint Venture Ltd. ("Warner") for a purchase price of approximately $1.4 million in Fairmount common stock issued in a share exchange with the Warner shareholders. Warner held five existing wells and at least ten additional drilling locations at Warner, Alberta. Facilities tie-in of the existing wells was completed subsequent to year end and first production started on April 23, 2005. Fairmount has a 50 percent working interest in most of these lands. Current production net to Fairmount is approximately 150 mcf/d (25 boe/d) of natural gas.

ADDITION OF TECHNICAL PERSONNEL

Since December 31, 2004, Fairmount has added four experienced technical staff in the areas of geology, land and engineering. With these additions, Fairmount now has the in-house technical expertise to develop internally generated prospects and pursue opportunities for new exploration and development.

DEPRECIATION, DEPLETION AND ACCRETION

	2005 $	2005 $/boe
Oil and gas depletion	153,096	19.43
Office furniture and equipment	1,541	0.20
Accretion	1,388	0.18
Total depletion, depreciation and accretion	**156,025**	**19.81**

Depletion for the fourth quarter was $19.16 per boe. This is down approximately 31 percent from $27.82 for the period ended December 31, 2004. Depletion is primarily a function of capital costs already incurred, future development costs estimated by Fairmount and proved reserves as determined by Fairmount and its independent engineers. As discussed in our December MD&A, Fairmount continues to expect the per unit depletion calculation to decrease as additional wells are drilled and the costs of facilities are spread over additional proved reserves.

At Harmattan, Fairmount has completed infrastructure which will be used to support 20 or more additional wells. However, current reservoir engineering only assigns proved reserves to 13 wells. As such, the infrastructure at Harmattan is being depleted over a smaller reserve base than Fairmount expects to have in place in future periods. Now that capacity constraints on production from the property have been removed, Fairmount is optimistic that the production for the wells in fiscal 2006 will result in increased reserves being assigned when our 2006 reserve report is prepared.

The Warner acquisition was purchased based on the economics of a reserve report which ascribed value to both proved and probable reserves. As such, Fairmount paid for probable reserves which are included in capitalized property and equipment and are subject to depletion, however, in accordance with generally accepted accounting principles, the probable reserves are not included in the depletion calculation. The reserve report for Warner was prepared with test data and analogous well performance before Fairmount had experienced any production from the property. Fairmount is optimistic that production experience from Warner in fiscal 2006 will support an increase to the proved reserves assigned to the property in next year's independent reserve report. Facilities which have been constructed at Warner are sufficient to support additional

drilling locations planned for this fall. If, as expected, these additional locations result in additional proved reserves, there will be an increase in the number of units of production over which these facilities will be depleted.

CAPITAL EXPENDITURES

	Year ended March 31, 2005 $
Drilling and completions	1,312,825
Equipping and tie ins	867,762
Office equipment	55,601
Capitalized G&A	17,216
Total cash expenditures	2,253,404
Acquisition of 6263488 Canada Ltd. for shares	340,384
Acquisition of Warner Joint Venture Ltd. for shares	1,541,636
Allowance for future restoration expenditures	92,970
Total	**4,228,394**

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, Fairmount has $5,268,875 of net working capital comprised mainly of cash.

Fairmount has raised total cash proceeds of $8,577,832 since August 5, 2004 in a number of individual financings including the Pharaoh acquisition. Details regarding these financings are contained in Note 4 to the financial statements. Current levels of cash and working capital, coupled with future cash flow from operations and the potential for bank debt are expected to be sufficient for currently planned exploration and development activities. It is anticipated Fairmount will have an ability to borrow funds to help finance future activities now that production from Harmattan and Warner has commenced.

PRINCIPAL PURPOSES OF FUNDS

As at December 31, 2004, the Company disclosed the principal purposes for which it planned to spend funds. The following table updates this disclosure.

	Drilling, equipping and tying in wells including facilities $	Other exploration and development expenditures $
December 31, 2004	2,661,000	2,300,000
Expenditures incurred	433,000	-
March 31, 2005	2,228,000	2,300,000

Fairmount's capital expenditure program is discretionary in nature and expenditures will be contingent upon the outcome of drilling activities. As at March 31, 2005, Fairmount was obligated to incur approximately $3,100,000 by December 31, 2005 for Canadian exploration expenses and Canadian development expenses in relation to its flow-through obligations.

RELATED PARTY TRANSACTIONS

Fairmount had an administrative services contract with Toscana Capital Corporation for the provision of office space and shared services for a monthly fee of $2,500. Toscana Capital Corporation is managed and partially owned by two individuals who are directors, one of whom is also an officer, of Fairmount. Charges under this contract have been recorded at their exchange value which Fairmount believes represents their fair market value. Fairmount and Toscana Capital Corporation agreed to terminate this agreement on February 28, 2005. During the period ended March 31, 2005, $16,250 was paid under this agreement.

A payment of $122,722 was made to Toscana Capital Corporation by Fairmount for services provided in the restructuring of Fairmount and completing its conversion to an oil and natural gas exploration and production corporation. As the terms of the arrangement were negotiated prior to Toscana Capital Corporation becoming a related party, this payment was recorded at the exchange value.

On December 10, 2004 and with an effective date of November 30, 2004, Fairmount completed the Warner acquisition. At the time of acquisition, approximately 38 percent of the Warner shares were owned by individuals or entities which were related parties. The related party relationship is between two directors of Fairmount, one of which is also an officer of Fairmount, and their personal shareholdings in Warner along with those of their spouses, or entities which they have an interest in and/or manage. These same two individuals were also the management of Warner. This transaction was approved by a committee of the independent directors of the board of the Company prior to any commitment being made by the Company and the acquisition was recorded at the exchange value of $1,377,474 which was supported by a number of factors, including independent reserve evaluations of the properties of both Fairmount and Warner.

On March 24, 2005, the Company closed an acquisition of all of the outstanding shares of Pharaoh Capital Inc. The directors and management of Pharaoh included two directors, one of which is also a member of management of Fairmount. As such, this was a related party transaction. This transaction was approved by a committee of the independent directors of the board of the Company prior to any commitment being made by the Company and the acquisition was recorded at the fair value of the net monetary assets acquired which was $1,379,838.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The following table summarizes material contractual obligations of Fairmount to expend funds in the future.

	Payments due by year ended March 31				
	2006 or earlier	2007 to 2008	2009 to 2010	2011 +	Total
Office lease	$170,080	$359,160	$194,545	-	$723,785
Resource expenditures under flow-through obligations	3,100,000	-	-	-	3,100,000
Total	**$3,270,080**	**$359,160**	**$194,545**	-	**$3,823,785**

OUTSTANDING SHARE DATA AS AT MAY 30, 2005

	Number
Common Shares	8,847,585
Stock Options	975,887
Performance Warrants	483,332

OUTLOOK

Fairmount has been successfully transformed into an oil and gas exploration and development company, with production and cash to fund growth. Fairmount has an inventory of a number of identified low to medium risk development and exploration opportunities and has tax pools to shelter income.

Fairmount anticipates the continuation of strong commodity prices for the foreseeable future and increased cash flow as additional properties are brought on production.

CRITICAL ACCOUNTING ESTIMATES

Significant accounting policies are contained in Note 3 to the audited financial statements as at March 31, 2005. The following discusses the accounting estimates that are critical in determining the reported financial results:

FULL COST ACCOUNTING

Fairmount follows the full cost method of accounting as prescribed by the Canadian Institute of Chartered Accountants Accounting Guideline 16 "Oil and Gas Accounting - Full Cost". All costs for exploration and development of reserves are depleted on the unit of production method based on estimated proved reserves. The capitalized costs may not exceed a ceiling amount. If the net capitalized costs are determined to be in excess of the calculated ceiling, which is normally a reserve-based estimate, the excess must be expensed. Proceeds on the disposal of properties are deducted from such costs without recognition of a gain or loss except where such a disposal is a significant portion of the reserves.

RESERVES

Fairmount will engage independent petroleum engineering consultants to evaluate its reserves on an annual basis, with quarterly estimates prepared internally. Reserve determinations involve forecasts based on property performance, future prices, projected future production and the timing of future capital expenditures, all of which are subject to uncertainties and interpretations. Reserve estimates have a significant impact on reported financial results as they are the basis for the calculation of depreciation and depletion and many non-generally accepted accounting principles key performance indicators. Revisions can change reported depletion and depreciation as well as earnings; downward revisions could result in a ceiling test write-down.

ASSET RETIREMENT OBLIGATION

Fairmount provides for the estimated abandonment costs of properties using a fair value method. This future estimate is based on estimated costs and technology following current legislation and industry practice. The reported liability is a discounted amount. The amount of the liability is affected by factors such as the number of wells, the timing of the expected expenditures and the discount factor. These estimates will change and the revisions could impact the depletion and depreciation rates.

INCOME TAXES

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after a considerable lapse of time. Accordingly, the actual income tax liability may differ significantly from the liability estimated or recorded.

OTHER ESTIMATES

The accrual method of accounting requires management to incorporate certain estimates, including estimates of revenues, royalties and production costs at a specific reporting date but for which actual revenues and costs have not yet been received; and estimates on capital projects which are in progress or recently completed where actual costs have not been received at a specific reporting date.

The Company ensures that the individuals with the most knowledge of the activity are responsible for the estimate. These estimates are then reviewed for reasonableness and past estimates are compared to actual results in order to make informed decisions on future estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fairmount's financial instruments recognized in the balance sheet consist of accounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying amounts due to their short terms to maturity.

CREDIT RISK

Fairmount's accounts receivable are with joint venture partners in the petroleum and natural gas business and are subject to normal credit risks. Concentration of credit risk is mitigated by industry standard operating agreements which provide remedies to joint venture partners in the event an operator does not remit funds due.

SUBSEQUENT EVENTS

On April 1, 2005, Fairmount was amalgamated with its two wholly owned subsidiaries, Warner Joint Venture Ltd. and 6263488 Canada Ltd. After the amalgamation, Fairmount has no subsidiaries.

On April 29, 2005, pursuant to a non-brokered private placement to a new employee, Fairmount issued 100,000 units consisting of one Common Share and one performance warrant at a price of $1.50 per unit. The performance warrants vest fifty percent after two years and fifty percent after three years and are exercisable at a price of $1.75 for a period of five years subject to vesting stock prices in the ten trading days immediately preceding exercise of $2.00 for warrants vesting after two years, and $3.00 for warrants vesting after three years.

On May 3, 2005, Fairmount was listed for trading on the TSX Venture Exchange under the symbol "FMT".

RISKS

The business of Fairmount is subject to risks encountered in the oil and gas industry. The risks and uncertainties below are not the only ones facing Fairmount. Additional risks and uncertainties not presently known to Fairmount or that Fairmount currently considers immaterial may also impair the business and operations of Fairmount and cause the price of the Fairmount Common Shares to decline. If any of the following risks actually occur, Fairmount's business may be harmed and the financial condition and results of operation may suffer significantly.

LIMITED OPERATING HISTORY

Fairmount has a limited operating history in its current market upon which a prospective investor can evaluate the business. Fairmount is subject to the risks, expenses and uncertainties frequently encountered by companies in the resource sector.

OIL AND GAS EXPLORATION RISKS

Exploration for petroleum, crude oil and/or natural gas is a speculative venture necessarily involving substantial risk, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no certainty that the expenditures made by Fairmount in the acquisition, exploration and the further development of the interests described herein or acquired in the future will result in discoveries of commercial quantities of petroleum or natural gas. Failure to discover commercial quantities of petroleum or natural gas may result in the loss of a shareholder's entire investment.

The marketability of natural resources which may be acquired or discovered by Fairmount will be affected by numerous factors beyond its control. These factors include market fluctuations, the proximity and capacity of natural resource markets and pipelines, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of oil and gas and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in Fairmount not receiving an adequate return on invested capital.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to Fairmount and may delay exploration and development activities. To the extent Fairmount is not the operator of its oil and gas properties, Fairmount will be dependent on such operators for the timing of activities related to such properties and will be largely unable to direct or control the activities of the operators.

OPERATIONAL MATTERS

The operation of oil and gas wells involves a number of operating and natural hazards which may result in blowouts, environmental damage and other unexpected or dangerous conditions resulting in damage to Fairmount and possible liability to third parties. Fairmount will maintain liability insurance, where available, in amounts consistent with industry standards. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. Fairmount may become liable for damages arising from such events against which it cannot insure or against which it may elect not to insure because of high premium costs or other reasons. Costs incurred to repair such damage or pay such liabilities will have an adverse effect on Fairmount's financial condition.

Continuing production from a property, and to some extent the marketing of production therefrom, are largely dependent upon the ability of the operator of the property. To the extent the operator fails to perform these functions properly, revenue may be reduced. Payments from production generally flow through the operator and there is a risk of delay and additional expense in receiving such revenues if the operator becomes insolvent. Fairmount does not currently operate any of its oil and gas properties. Although satisfactory title reviews are generally conducted in accordance with industry standards, such reviews do not guarantee or certify that a defect in the chain of title may not arise to defeat the claim of Fairmount to certain properties.

LIABILITY FOR HAZARDS

Hazards such as over pressured formations or other conditions are involved in drilling and operating wells. Fairmount may have the benefit of insurance, however, it may become subject to liability for pollution, blowouts or other hazards against which it cannot insure, or against which it may elect not to insure because of high premium costs or other reasons. Payment of such liabilities would reduce the funds available for exploration, drilling and production or could result in the loss of property.

VOLATILITY OF OIL AND NATURAL GAS PRICES

Fairmount's operational results and financial condition will be dependent on the prices it receives for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on Fairmount's financial condition.

RESERVE ESTIMATES

There are numerous uncertainties inherent in estimating quantities of reserves and the present value of future net cash flows attributable to such reserves. Such estimates represent subjective judgements based on available data and the quality of such data. Different reserve engineers may make different estimates of reserve quantities and the present value of future net cash flows attributable to the production of such quantities. Substantial revisions to the reserve quantities and present value estimates may be necessary due to numerous factors, including the results of drilling, testing and production and changes in the assumptions regarding decline and production rates, taxes, royalties, prices and costs made after the date of a reserve estimate. The reserve estimates used by Fairmount in the preparation of this document and the financial statements could be materially different from the quantities and values ultimately realised.

INCOME TAXES

The Company believes that it is in compliance with the provisions of the Income Tax Act (Canada) and all applicable provincial tax legislation. However, income tax returns filed by Fairmount may be subject to reassessment by the applicable taxation authority. In the event of a successful reassessment of the Company, such reassessment may have an impact on current and future taxes payable.

ADDITIONAL FINANCING

From time to time Fairmount may enter into transactions to acquire assets or shares of other corporations. These transactions may be financed partially or wholly through debt, which may increase Fairmount's debt levels above industry standards or through the issuance of Fairmount Shares, which may result in immediate dilution of shareholders of Fairmount. Depending on future exploration and development plans, Fairmount may require additional financing which may not be available at all or, if available, may not be available on favourable terms.

INSURANCE

The Company's involvement in the exploration for and development of oil and gas properties may result in Fairmount becoming subject to liability for pollution, blowouts, property damage, personal injury or other hazards. Although Fairmount has obtained insurance in accordance with industry standards to address such risks, such insurance has limitations on liability that may not be sufficient to cover the full extent of such liabilities. In addition, such risks may not, in all circumstances be insurable or, in certain circumstances, Fairmount may elect not to obtain insurance to deal with specific risks due to the high premiums associated with such insurance or other reasons. The payment of such uninsured liabilities would reduce the funds available to Fairmount. The occurrence of a significant event that Fairmount is not fully insured against, or the insolvency of the insurer of such event, could have a material adverse effect on Fairmount's financial position, results of operations or prospects.

COMPETITION

The natural gas and petroleum industry is competitive in all its phases. Fairmount competes with numerous other participants in the search for and the acquisition of oil and natural gas properties and in the marketing of oil and natural gas. Fairmount's competitors include oil corporations that have greater financial resources, staff and facilities than those of Fairmount. Fairmount's ability to increase reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for exploration and development. Competitive factors in the distribution and marketing of oil and natural gas include price and methods and reliability of delivery.

ENVIRONMENTAL REGULATIONS

Fairmount's operations may be subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and gas operations which would result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require the submission and approval of environmental impact assessments. Environmental legislation is evolving in a manner which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations.

KYOTO ACCORD

Canada is a signatory to the United Nations Framework Convention on Climate Change and has ratified the Kyoto Protocol established thereunder to set legally binding targets to reduce nation-wide emissions of carbon dioxide, methane, nitrous oxide and other so-called "greenhouse gases". The Government of Canada has put forward a Climate Change Plan for Canada which suggests further legislation will set greenhouse gases emission reduction requirements for various industrial activities, including oil and gas production. Future federal legislation, together with existing provincial emission reduction legislation, such as in Alberta's Climate Change and Emissions Management Act, may require the reduction of emissions and/or emissions intensity from Fairmount's oil and gas exploration and development activities. The direct or indirect costs of such legislation may adversely affect Fairmount's operations. No assurance can be given that future environmental approvals, laws or regulations will not adversely impact (i) the ability of Fairmount to conduct its operations or (ii) Fairmount's production or (iii) Fairmount's unit costs of production. Equipment from suppliers which can meet future emission standards may not be available on an economic basis and other methods of reducing emissions to required levels in the future may significantly increase operating costs or reduce output. There is a risk that the federal and/or provincial governments could pass legislation which would tax such emissions or require, directly or indirectly, reductions in such emissions produced by energy industry participants, such as Fairmount. Mitigation of the risk of future legislative or regulatory limits on the emission of greenhouse gases may include the acquisition of emission reduction or offset credits from third parties. However, emission reduction or offset credits may not be available for acquisition by Fairmount or may not be available on an economic basis and may not be recognized or qualify under future legislative or regulatory regimes as mitigation for the emission of greenhouse gases by Fairmount.

ABANDONMENT AND RECLAMATION COSTS

Fairmount will be responsible for compliance with terms and conditions of environmental and regulatory approvals and all laws and regulations regarding abandonment and reclamation in respect of its properties, which abandonment and reclamation costs may be substantial. A breach of such legislation and/or regulations may result in the imposition of fines and penalties, including an order for cessation of operations at the site until satisfactory remedies are made.

RELIANCE ON OPERATORS AND KEY EMPLOYEES

To the extent Fairmount is not the operator of its oil and gas properties, Fairmount will be dependent on such operators for the timing of activities related to such properties and will largely be unable to direct or control the activities of the operators. In addition, the success of Fairmount will be largely dependent upon the performance of its management and key employees. Fairmount does not have any key person insurance policies, and therefore there is a risk that the death or departure of any member of management or any key employee could have a material adverse effect on Fairmount.

CORPORATE MATTERS

Certain directors of Fairmount are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of Fairmount are required by law to act honestly and in good faith with a view to the best interests of Fairmount and to disclose any interest which they may have in any project or opportunity of Fairmount. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not Fairmount will participate in any project or opportunity, the director will primarily consider the degree of risk to which Fairmount may be exposed and its financial position at that time. Conflicts, if any, will be subject to the procedures and remedies of the *Canada Business Corporations Act*.

PERMITS AND LICENSES

The operations of Fairmount may require licenses and permits from various governmental authorities. There can be no assurance that Fairmount will be able to obtain all necessary licenses and permits that may be required to carry out exploration and development of its projects.

TITLE TO PROPERTIES

Although title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Company which could result in a reduction of the revenue received by the Company.

CHANGES IN LEGISLATION

There can be no assurance that income tax laws and government incentive programs relating to the oil and gas industry will not be changed in a manner which adversely affects Fairmount or its shareholders.

MANAGEMENT'S REPORT

To the Shareholders of Fairmount Energy Inc.:

The accompanying financial statements of Fairmount Energy Inc. and all the information in this Annual Report are the responsibility of management and have been approved by the Board of Directors. The financial statements have been prepared by management in accordance with generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the financial statements.

Management has established systems of internal controls, which are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for the preparation of financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. It exercises its responsibilities primarily through the Audit Committee, which is comprised entirely of non-management directors. The Audit Committee has reviewed the financial statements with management and the auditors and has reported to the Board of Directors. The Board of Directors has approved the financial statements at the recommendation of the Audit Committee.

The financial statements have been audited on behalf of the shareholders by Deloitte and Touche LLP, the external auditors, in accordance with auditing standards generally accepted in Canada.

J. S. Durante

Joseph S. Durante
President and
Chief Executive Officer

Calgary, Alberta
May 25, 2005

Ryan A. Michaluk
Vice President Finance
and Chief Financial Officer

Calgary, Alberta
May 25, 2005

AUDITORS' REPORT

To the Shareholders of Fairmount Energy Inc.:

We have audited the consolidated balance sheets of Fairmount Energy Inc. as at March 31, 2005 and 2004 and the consolidated statements of income and retained earnings and of cash flows for the year ended March 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2005 and 2004 and the results of its operations and its cash flows for the year ended March 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
May 25, 2005

BALANCE SHEETS

CONSOLIDATED BALANCE SHEETS

FAIRMOUNT ENERGY INC. (formerly Star Biotech Inc.)
Consolidated Balance Sheets
As at March 31, 2005

	March 31, 2005 $	March 31, 2004 $
ASSETS		
CURRENT		
Cash and cash equivalents	5,631,752	181,346
Accounts receivable and prepaid expenses	164,379	3,354
	5,796,131	184,700
Property and equipment (Note 5)	4,073,757	-
Investment in Metamorphix, Inc. (Note 2)	-	5,011,640
Investment in YM Biosciences Inc. (Note 2)	-	168,750
	9,869,888	5,365,090
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	527,256	7,500
Dividend payable	-	93,560
	527,256	101,060
Asset retirement obligation (Note 6)	94,358	-
	621,614	101,060
SHAREHOLDERS' EQUITY		
Special preferred share (Notes 2 and 4)	-	1
Common share capital (Notes 2 and 4)	9,400,160	18,834,184
Contributed surplus (Notes 2 and 4)	220,677	13,648,025
Deficit (Notes 2 and 4)	(372,563)	(27,218,180)
	9,248,274	5,264,030
	9,869,888	5,365,090

APPROVED BY THE BOARD

(Signed) Brian Mellum, Director

(Signed) Joseph Durante, Director

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

FAIRMOUNT ENERGY INC.
Consolidated Statement of Income and Deficit
Year Ended March 31, 2005

	For the year ended March 31, 2005 $
REVENUE	
Petroleum and natural gas revenue	305,247
Royalties	(64,556)
Interest income	33,378
	274,069
EXPENSES	
Production	35,398
General and administrative	222,857
Stock-based compensation (Note 4)	166,149
Depletion, depreciation and accretion	156,025
Interest	27,028
	607,457
LOSS BEFORE THE UNDERNOTED	(333,388)
RESTRUCTURING COSTS AND PRE-RESTRUCTURING NET LOSS (Note 2)	(549,687)
LOSS BEFORE INCOME TAXES	(883,075)
INCOME TAXES (Note 7)	
Recovery of future income taxes	(1,615,200)
NET INCOME	732,125
DEFICIT, BEGINNING OF PERIOD	(27,218,180)
REDUCTION OF DEFICIT AND PAID UP CAPITAL (Notes 2 and 4)	26,113,492
DEFICIT, END OF PERIOD	(372,563)
NET INCOME PER SHARE	
Basic	$ 0.19
Diluted	$ 0.18
WEIGHTED AVERAGE NUMBER OF SHARES	
Basic	3,856,835
Diluted	3,962,533

INCOME AND DEFICIT

CASH FLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS

FAIRMOUNT ENERGY INC.
Consolidated Statement of Cash Flows
Year Ended March 31, 2005

	For the year ended March 31, 2005 $
CASH FLOWS RELATED TO THE FOLLOWING ACTIVITIES:	
OPERATING	
Net Income	732,125
Adjustments for:	
Loss on sale of investment in YM Biosciences Inc.	1,564
Depletion, depreciation and accretion	156,025
Stock-based compensation	166,149
Issue of shares for reorganization costs	250,000
Recovery of future income taxes	(1,615,200)
	(309,337)
Changes in non-cash operating working capital:	
Accounts receivable	(83,792)
Accounts payable and accrued liabilities	171,820
	88,028
INVESTING	
Cash acquired in acquisition	3,507
Property and equipment additions	(2,253,404)
Proceeds on sale of investment in YM Biosciences Inc.	151,992
Change in accounts payable and accrued liabilities	150,889
	(1,947,016)
FINANCING	
Issue of shares, net of share issue costs	7,892,640
Redemption of special preferred share	(1)
Payment of dividends	(78,367)
Transfer of cash to Star Bio Investments Inc.	(195,541)
	7,618,731
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,450,406
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	181,346
CASH AND CASH EQUIVALENTS, END OF YEAR	5,631,752
Cash income taxes paid	-
Cash interest paid	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Fairmount Energy Inc. ("Fairmount" or the "Company") is engaged in the exploration for and production of petroleum and natural gas in Western Canada. Fairmount is incorporated under the *Canada Business Corporations Act*.

During 2004, Fairmount was reorganized and restructured to convert itself to an oil and gas exploration and production company (Note 2).

2. REORGANIZATION

The Company was reorganized to become an oil and gas exploration and production company. The details of the reorganization are included in Note 4. Prior to the reorganization, Fairmount was named Star Biotech Inc., formerly Biostar Inc.

The net loss for the pre-reorganization period April 1, 2004 to August 4, 2004 and the costs of the reorganization were:

	$
Revenue	
Interest income	1,028
Costs and expenses	
General and administrative expenses	24,543
Loss on sale of investment in YM Biosciences Inc.	1,564
	26,107
Net loss - pre-reorganization	(25,079)
Reorganization costs	(524,608)
	(549,687)

The balance sheet as at August 4, 2004 consisted of $20,009 in cash and shareholders' equity.

3. ACCOUNTING POLICIES

Due to the reorganization (Note 2), significant changes in the operations, assets, liabilities, and financial structure of the Company have occurred between this reporting period and the same period last year. Financial statements for the comparative period of the previous year would not provide meaningful information and have not been provided.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and include the following significant accounting policies:

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Company include the accounts of the Company, and its wholly owned subsidiaries from the date of acquisition. All significant inter-Company accounts and transactions have been eliminated.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, short term deposits and money market investments.

PROPERTY AND EQUIPMENT

Capitalized costs

The Company follows the full cost method of accounting for its petroleum and natural gas operations. Under this method all costs related to the exploration for and development of petroleum and natural gas reserves are capitalized on a country-by-country basis. Costs include lease acquisition costs, geological and geophysical expenses and costs of drilling both productive and non-productive wells. Proceeds from the disposition of properties are applied against capitalized costs, without any gain or loss being realized, unless such disposition results in a change of 20 percent or more in the rate of depletion and depreciation.

Depletion and depreciation

Depletion of petroleum and natural gas properties and depreciation of production equipment, net of estimated salvage or residual value, is provided using the unit-of-production method based upon estimated proven petroleum and natural gas reserves as determined by independent engineers. The costs of significant unevaluated properties are excluded from costs subject to depletion. For depletion and depreciation purposes, relative volumes of petroleum and natural gas production and reserves are converted at the energy equivalent conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil.

Furniture, fixtures, and office equipment are recorded at cost and depreciated on a straight line basis over their useful life of five years.

Ceiling test

Oil and gas assets are evaluated at least annually to determine that the costs are recoverable and do not exceed the fair value of the properties. The costs are assessed to be recoverable if the sum of the undiscounted cash flows expected from the production of proved reserves and the lower of cost and fair value of unproved properties exceed the carrying value of the oil and gas assets. If the carrying value of the oil and gas assets is assessed to be not recoverable, an impairment loss will be recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from the production of proved and probable reserves and the lower of cost or fair value of unproved properties. The cash flows are estimated using the future product prices and costs and are discounted using the risk free rate.

MEASUREMENT UNCERTAINTY

Amounts recorded for depreciation and depletion, the provision for asset retirement and abandonment costs and amounts used for ceiling test calculations are based on estimates of oil and natural gas reserves. The Company's reserve estimates are reviewed annually by an independent engineering firm. By their nature, these estimates of reserves and future cash flows are subject to measurement uncertainty, and the impact on the financial statements of future periods could be material.

ASSET RETIREMENT OBLIGATION

The Company records a liability for the fair value of legal obligations associated with the retirement of long-life assets in the period in which they are incurred, normally when the asset is purchased or developed. On recognition of the liability, there is a corresponding increase in the carrying amount of the related asset known as the asset retirement cost which is depleted on a unit-of-production basis over the proved reserves. The liability is adjusted each reporting period to reflect the passage of time, with the accretion charged to earnings, and for revisions to the estimated future cash flows. Actual costs incurred on settlement of the obligations will be charged against the liability and any remaining difference will be recognized as a gain or loss to earnings in the period.

JOINT OPERATIONS

Substantially all of the exploration and production activities of the Company are conducted jointly with others and these financial statements reflect only the Company's proportionate interest in such activities.

FLOW-THROUGH SHARES

The Company has financed a portion of its exploration and development activities through the issuance of flow-through shares. Under the terms of the flow-through share issues, the tax attributes of the related expenditures are renounced to subscribers. To recognize the forgone tax benefits to the Company, the carrying value of the shares issued and future income tax liabilities are adjusted by the estimated value to the Company of the renounced income tax deductions when the related flow-through expenditures are renounced to the investors.

STOCK-BASED COMPENSATION

Under the Company's option policy described in Note 4, options to purchase Common Shares are granted to directors, officers, employees and consultants at prices determined by the Board of Directors. In connection with equity offerings to directors, officers, employees and consultants, performance warrants (Note 4) to purchase Common Shares were granted to directors, officers, employees and consultants at prices determined by the Board of Directors. Stock-based compensation expense is recorded in the consolidated statement of income and deficit for all options and compensatory performance warrants granted on or after April 1, 2002, with a corresponding increase recorded as contributed surplus. Compensation expense is based on the estimated fair values at the time of the grant and the expense is recognized over the vesting period of the option or warrant. Upon the exercise of the options or warrants, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital. In the event that vested options or warrants expire, previously recognized compensation expense associated with them is not reversed. In the event that vested options or warrants are cancelled, previously recognized compensation expense associated with them is reversed.

USE OF ESTIMATES

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles require management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

FUTURE INCOME TAXES

The Company follows the liability method of accounting for income taxes. Under this method future tax assets and liabilities are determined based on differences between financial reporting and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. A valuation allowance is recorded against a future income tax asset if it is considered to be more likely than not that the asset will not be realized.

REVENUE RECOGNITION

Petroleum and natural gas sales are recognized as revenue when commodities are delivered to purchasers.

PER SHARE AMOUNTS

Per share amounts are calculated using the weighted average number of Common Shares outstanding during the period. The Company utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming that proceeds arising from the exercise of in-the-money options and other dilutive instruments are used to purchase, for cancellation, Common Shares of the Company at their average market price for the period.

INVESTMENTS

Long-term investments are stated at cost. If there is a decline in value that is considered other than temporary, the decline in value will be reflected in the records.

4. SHARE CAPITAL

a) Authorized share capital

An unlimited number of voting, participating Common Shares without nominal or par value.

On July 15, 2004, the Company amended its Articles of Incorporation to rename what were previously named Common Shares to Class A Common Shares and create new classes of Common Shares named Class B Common Shares and Class C Common Shares.

On August 3, 2004, the number of Class A Common Shares and Class B Common Shares was proportionately reduced to an aggregate of 1,149,775. Immediately following this reduction, the stated capital was reduced to $1,149,775 and the Class A Common Shares and Class B Common Shares were converted to Class C Common Shares at a rate of one Class C Common Share for one Class A Common Share or one Class B Common Share.

On August 4, 2004, the Company amended its Articles of Incorporation to rename the Class C Common Shares to Common Shares and to eliminate all other classes of shares.

b) Special Preferred Share

The one Special Preferred Share which had previously been issued for $1.00 was redeemed for $1.00 on August 3, 2004.

c) Common Shares, formerly Class C Common Shares

	Number of Shares	Amount
Balance, March 31, 2004	-	-
Conversion of Class A Common Shares (formerly Common Shares)	1,071,357	1,071,357
Conversion of Class B Common Shares	78,418	78,418
Private placement (i)	1,098,000	1,098,000
Purchase of 6263488 Canada Ltd. (Note 8)	400,001	362,400
Issued to agent for reorganization costs (ii)	250,000	250,000
Private placement (iii)	199,998	199,998
Private placement (iv)	50,001	50,001
Private placement (v)	499,995	499,995
Issued for Warner Joint Venture Limited (Note 8)	868,687	1,377,474
Private placement (vi)	3,156,842	5,350,000
Issued for Pharoah Capital Inc. (Note 8)	1,074,286	1,379,838
Tax effect of flow-through shares	-	(1,615,200)
Share issue costs	-	(702,121)
Balance, March 31, 2005	**8,747,585**	**9,400,160**

i) On August 5, 2004, the Company completed a private placement for the issue of 274,500 units, consisting of three flow-through Common Shares and one Common Share, at $4.00 per unit for gross proceeds of $1,098,000.

ii) On August 5, 2004, the Company issued 250,000 Common Shares at a value of $1.00 per Common Share to the agent for its role in the reorganization.

iii) On September 22, 2004, the Company completed a private placement to a director and to an officer to issue 66,666 units consisting of three flow-through Common Shares and one performance warrant for $3.00 per unit and gross proceeds of $199,998.

iv) On October 18, 2004, the Company completed a private placement to a director to issue 16,667 units consisting of three flow-through Common Shares and one performance warrant for $3.00 per unit and gross proceeds of $50,001.

v) On November 8, 2004, the Company completed a private placement to three consultants to issue 99,999 units consisting of three flow-through Common Shares and one performance warrant for $3.00 per unit and to also issue 66,666 units consisting of three Common Shares and one performance warrant for $3.00 per unit and gross proceeds of $499,995.

vi) On December 10, 2004, the Company completed a private placement financing to issue 1,620,000 Common Shares at a price of $1.50 per Common Share and to issue 1,536,842 flow-through Common Shares at a price of $1.90 per flow-through Common Share for gross proceeds of $5,350,000.

d) Class A Common Shares, formerly Common Shares

	Number of Shares	Amount $
Balance, March 31, 2004	215,880,056	18,834,184
Conversion to Class B Common Shares	(14,723,624)	(1,284,544)
Reduction in share capital:		
- Distribution of Star Bio Investments Inc. by a reduction in capital	-	(4,862,996)
- To reflect value of Company upon change in business	-	(11,615,287)
Conversion to Common Shares (formerly Class C Common Shares)	(201,156,432)	(1,071,357)
Balance, March 31, 2005	-	-

As part of the reorganization (Note 2), on August 4, 2004, the Company:

i) converted 14,723,624 Class A Common Shares to an equal number of Class B Common Shares.

ii) completed the sale of all of the Company's biotechnology assets to, and the assumption of all of the Company's liabilities by, a newly formed subsidiary company named Star Bio Investments Inc. in exchange for Common Shares in the new subsidiary on August 3, 2004.

iii) proportionately distributed all of the shares in Star Bio Investments Inc. to the shareholders of the Class A and Class B Common Shares via a reduction in paid up capital for the Class A shareholders and a capital dividend for the Class B shareholders.

iv) reduced the stated capital of the Class A and Class B Common Shares proportionately to an aggregate of $1,149,775.

e) Class B Common Shares

	Number of Shares	Amount $
Balance, March 31, 2004	-	-
Conversion of Class A Common Shares	14,723,624	1,284,544
Reduction in share capital		
- Distribution of Star Bio Investments Inc.by capital dividend	-	(355,946)
- To reflect value of Company upon change in business	-	(850,180)
Conversion to Common Shares (formerly Class C Common Shares)	(14,723,624)	(78,418)
Balance, March 31, 2005	**-**	**-**

f) Contributed surplus

	$
Balance, March 31, 2004	13,648,025
Reduction to deficit as part of reorganization	(13,648,025)
Performance warrants	60,142
Stock options	160,535
Balance, March 31, 2005	**220,677**

g) Deficit

	$
Balance, March 31, 2004	(27,218,180)
Reduction of contributed surplus as part of reorganization	13,648,025
Reduction of Class A share capital as part of reorganization	11,615,287
Reduction of Class B share capital as part of reorganization	850,180
Net income for the period	732,125
Balance, March 31, 2005	**(372,563)**

h) Stock options

	Number of Options	Weighted Average Exercise Price $
Outstanding, March 31, 2004	958	433.72
Issued during year	974,929	1.33
Outstanding, March 31, 2005	**975,887**	**1.75**

The Company has granted stock options to directors, officers, employees and consultants. The exercise price of options under the grants was equal to the prevailing market price of the Common Shares as established by the last completed financing. The options vest annually over a period of three years with a term of five years.

Prior to the reorganization (Note 2), the Company had established a stock option plan (the "Plan") under which a maximum of 9,468 (1,777,692 before the reorganization and share consolidation) options to purchase Common Shares were available to be granted to directors, officers, consultants and key employees of the Company. The exercise price of options issued under the Plan was generally equal to the prevailing market price of the Common Shares as established by the Board of Directors. These options vested within one to five years of being granted and expire 10 years from the date of issue.

The following summarizes information about stock options outstanding as at March 31, 2005:

Exercise Price $	Number of Options Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price $	Number of Options Exercisable
433.72	958	3.8	433.72	958
1.00	429,999	4.6	1.00	-
1.50	357,500	4.7	1.50	-
1.75	80,000	0.6	1.75	80,000
1.75	107,430	3.8	1.75	107,430
	975,887	**4.2**	**1.75**	**188,388**

i) Performance warrants

Each performance warrant entitles the holder to purchase one Common Share at the exercise price. The warrants have both a vesting period and the requirement that, once the Company's stock is publicly traded, its weighted average stock price must trade at or above the vesting stock price for the 10 trading days preceding exercise. In the absence of the Company being publicly traded, the vesting price is the price per share received by the shareholders upon an acquisition of all of the Company's shares by an acquirer or the cash proceeds per share upon the disposition of all or substantially all of the Company's assets resulting in the liquidation of the Company. The following table summarizes the outstanding performance warrants as at March 31, 2005.

Exercise Price $	Vesting Period at Grant Date (Years)	Vesting Stock Price $	Weighted Average Remaining Contractual Life (Years)	Number of Performance Warrants Outstanding	Weighted Average Exercise Price $	Number of Performance Warrants Exercisable
1.00	1	1.00	4.5	127,781	1.00	-
1.00	2	2.00	4.5	127,777	1.00	-
1.00	3	3.00	4.5	127,774	1.00	-
			4.5	383,332	1.00	-

j) Stock-based compensation

The Company has recognized $166,149 of stock-based compensation expense for options and performance warrants granted to directors, officers, employees and consultants.

The fair value of stock based compensation was estimated using a modified Black-Scholes model with the following weighted average assumptions and resulting fair values:

Instrument	Vesting Stock Price $	Expected Volatility	Risk Free Interest Rate	Expected Life (Years)	Weighted Average Fair Value of Instrument Granted
Stock options		35%	4.00%	5	0.46
Performance warrants	1.00	35%	4.00%	5	0.38
Performance warrants	2.00	35%	4.00%	5	0.28
Performance warrants	3.00	35%	4.00%	5	0.19

5. PROPERTY AND EQUIPMENT

	$
Petroleum and natural gas properties and equipment	4,172,793
Furniture, fixtures and office equipment	55,601
	4,228,394
Less accumulated depletion and depreciation	154,637
	4,073,757

As at March 31, 2005, costs of $150,000 with respect to unproved properties have been excluded from costs subject to depletion. General and administrative charges of $17,216 have been capitalized to petroleum and natural gas properties.

At March 31, 2005, the Company applied a ceiling test to its petroleum and natural gas properties and equipment using expected future prices. The Company utilized the services of two separate independent reservoir engineering firms, each of which has their own future price forecasts. The expected future prices used were as follows:

Property	Benchmark reference Price Forecast	2005	2006	2007	2008	2009	2010
Harmattan	AECO $/mmbtu	7.70	7.20	6.95	6.75	6.50	6.50
Harmattan	WTI ($US/bbl)	54.00	50.00	47.50	45.00	42.00	40.00
Warner	AECO $/mcf	7.50	7.50	7.40	7.10	6.70	6.50

6. ASSET RETIREMENT OBLIGATION

The following table reconciles the Company's asset retirement obligations:

	$
Balance, March 31, 2004	-
Liabilities incurred and acquired	92,970
Liabilities settled	-
Accretion expense	1,388
Balance, March 31, 2005	**94,358**

The total future asset retirement obligation was estimated based on the Company's net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities, the estimated rate of inflation and the estimated timing of the costs to be incurred in future periods. The total undiscounted amount of the estimated cash flows to settle the asset retirement obligations is approximately $145,000 which will be incurred over the next 15 years. A credit-adjusted risk-free rate of eight percent was used to calculate the fair value of the obligations.

7. INCOME TAX

The provision for income taxes on the consolidated statement of loss and deficit differs from the amount that would be computed by applying the expected tax rates to the loss before income taxes. The reasons for the difference between such expected income tax recovery and the amount recorded are as follows:

	$
Income tax rate at 37.62 percent	
Expected income tax recovery	(332,213)
Non deductible crown charges, net of Alberta Royalty Tax Credit	21,857
Federal resource allowance	(24,028)
Stock-based compensation	62,505
Tax losses not previously recognized	(1,343,321)
	(1,615,200)

The Company has research and development expenditures ("SR&ED"), non-refundable investment tax credits ("Non Refundable ITCs"), non-capital loss carry forwards ("Non Capital Losses") and depreciable property and resource property tax pools ("Other Tax Pools") available for income tax purposes which may be carried forward to reduce future years' taxable income. The approximate amounts and the related expiry dates of these tax pools are as follows:

Expiry date	SR&ED $	Non Refundable ITCs $	Non Capital Losses $	Other Tax Pools $
March 31, 2006	-	371,000	5,524,000	-
March 31, 2007	-	336,000	201,000	-
March 31, 2008	-	359,000	1,497,000	-
March 31, 2009	-	604,000	100,000	-
March 31, 2010	-	500,000	70,000	-
March 31, 2011	-	-	91,000	-
No expiry date	11,111,000	-	-	1,113,000
	11,111,000	**2,170,000**	**7,483,000**	**1,113,000**

The following summarizes the tax effect of temporary differences:

	Future Income Taxes $
Future income tax assets	
Non capital loss carried forward	2,815,105
Scientific research and development expenditures carried forward	4,179,955
Share issue costs	206,216
	7,201,276
Future income tax liabilities	
Carrying value of capital assets in excess of tax basis	(1,077,900)
Flow through expenditures renounced at March 31, 2005 and to be incurred before December 31, 2005	(1,166,220)
	(2,244,120)
Less: Valuation allowance	(4,957,156)
Total	-

8. ACQUISITIONS

6263488 Canada Ltd.

On August 5, 2004, Fairmount acquired 100 percent of the outstanding Common Shares of 6263488 Canada Ltd. ("6263488"). The results of 6263488's operations have been included in the consolidated financial statements since that date. 6263488 holds a joint venture interest in oil and gas properties in the Harmattan area of Alberta.

The aggregate purchase price was $400,000, paid through the issuance of 400,001 Common Shares and the issuance of 133,334 Common Share purchase performance warrants (Note 4). The value of the shares issued was determined to be $362,400. This value is based on the agreed purchase price of $400,000 less the calculated fair value of $37,600 for the performance warrants issued as part of the acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	$
Cash	3,507
Accounts receivable	60,968
Property and equipment	340,384
	404,859
Current liabilities	4,859
Net assets acquired	**400,000**

The purchase price allocation included recognition of previously unrecognized future income tax assets of Fairmount to offset previously recognized future income tax liabilities of 6263488.

Warner Joint Venture Ltd.

Pursuant to an agreement dated November 30, 2004, on December 10, 2004, Fairmount acquired 100 percent of the outstanding Common Shares of Warner Joint Venture Ltd. ("Warner") (Note 9). The results of Warner's operations have been included in the consolidated financial statements since that date. Warner holds joint venture interests in oil and gas properties in the Warner and Caroline areas of Alberta.

The aggregate purchase price was $1,377,474, paid through the issuance of 868,687 Common Shares at a price of $1.59 per Common Share. The value of the Common Shares issued was determined based on negotiations between Fairmount and Warner referencing, amongst other things, the independent reserve values of each Company. Reference was also made to the price of Common Shares issued in a financing which also occurred on December 10, 2004 at an average price of $1.69 per Common Share before agent fees.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	$
Cash	-
Accounts receivable	28,026
Property and equipment	1,541,636
Total	**1,569,662**
Current liabilities	192,188
Net assets acquired	**1,377,474**

The purchase price allocation included recognition of previously unrecognized future income tax assets of Fairmount to offset previously recognized future income tax liabilities of Warner.

Pharaoh Capital Inc.

On March 24, 2005, the Company acquired Pharaoh Capital Inc. ("Pharaoh") through the issuance of 1,074,300 Common Shares (Note 9). The transaction was carried out by means of a plan of arrangement (the "Arrangement") as a three-cornered amalgamation whereby a wholly owned subsidiary of Fairmount amalgamated with Pharaoh. Following the amalgamation and as part of the Arrangement, the amalgamated corporation distributed all of its assets and property to Fairmount and Fairmount assumed all liabilities on a winding up of the amalgamated corporation. The amalgamated corporation was dissolved in accordance with the *Business Corporations Act* (Alberta). The shareholders of Pharaoh exchanged seven Pharaoh Common Shares for one Common Share of Fairmount.

Pharaoh was a public company listed on the TSX Venture Exchange and this transaction constituted Pharaoh's qualifying transaction, resulting in Fairmount's Common Shares being listed for trading on the TSX Venture Exchange (Note 11).

After giving effect to the Arrangement, former shareholders of Pharaoh held approximately 12.3 percent of the outstanding Common Shares of Fairmount. As the operations of Pharaoh did not constitute a "business" as defined under GAAP, the transaction was accounted for as a share issuance by Fairmount for gross proceeds equal to the net monetary assets acquired and all costs of the transaction have been recorded as share issue costs.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition.

	$
Cash	1,274,159
Accounts receivable	15,760
Share issue costs	90,989
	1,380,908
Accounts payable	1,070
Net assets acquired	**1,379,838**

9. RELATED PARTY TRANSACTIONS

The Company had an administrative services contract with Toscana Capital Corporation for the provision of office space and shared services. Toscana Capital Corporation is managed and partially owned by two individuals who are directors, one of whom is also an officer, of the Company. Charges under this contract have been recorded at their exchange value which represents their fair market value. The contract was terminated on February 28, 2005. $16,250 was paid under this agreement and is included in general and administrative expenses during the period.

Under the terms of the restructuring agreement (Note 2) Toscana Capital Corporation was paid a one time payment of $122,722 for services to the Company in managing its operations and completing its conversion to an oil and natural gas exploration and production company.

On December 10, 2004, the Company closed an acquisition of all of the outstanding shares of Warner Joint Venture Limited (Note 8). At the time of acquisition, approximately 38 percent of the Warner shares were owned by individuals or entities which were related parties. The related party relationship is between two directors of the Company, one of whom is also an officer of the Company, and their personal shareholdings in Warner along with those of their spouses, or entities which they have an interest in and or manage. These same two individuals were also the management of Warner. This transaction was approved by a committee of the independent directors of the board of the Company prior to any commitment being made by the Company and the acquisition was recorded at the exchange value which was supported by a number of factors, including independent reservoir evaluations of the properties of both the Company and Warner, and the value ascribed to Company shares under a financing which was being undertaken contemporaneously with the acquisition being accepted by the Warner shareholders.

On March 24, 2005, the Company closed an acquisition of all of the outstanding shares of Pharaoh Capital Inc. (Note 8). The directors and management of Pharaoh included two directors, one of which is also a member of management of Fairmount. As such, this was a related party transaction. This transaction was approved by a committee of the independent directors of the board of the Company prior to any commitment being made by the Company and the acquisition was recorded at the fair value of the net monetary assets acquired.

10. COMMITMENTS AND CONTINGENCIES

Under the terms of flow-through share financings conducted during 2004, the Company is obligated to incur approximately $3,100,000 of qualifying Canadian Development Expenses and Canadian Exploration Expenses by December 31, 2005.

The Company has leased office space until April 30, 2009 with minimum lease payments for the years ending March 31 of:

	$
2006	170,080
2007	179,580
2008	179,580
2009	179,580
2010	14,965
	723,785

11. SUBSEQUENT EVENTS

On April 1, 2005, Fairmount was amalgamated with its two wholly owned subsidiaries, Warner Joint Venture Ltd. and 6263488 Canada Ltd. After the amalgamation, Fairmount has no subsidiaries.

On April 29, 2005, pursuant to a non-brokered private placement to a new employee, Fairmount issued 100,000 units consisting of one Common Share and one performance warrant at a price of $1.50 per unit. The performance warrants vest 50 percent after two years and 50 percent after three years and are exercisable at a price of $1.75 for a period of five years subject to vesting stock prices in the 10 trading days immediately preceding exercise of $2.00 for warrants vesting after two years, and $3.00 for warrants vesting after three years.

On May 3, 2005, Fairmount was listed for trading on the TSX Venture Exchange under the symbol “FMT”.

CORPORATE INFORMATION

OFFICERS & SENIOR MANAGEMENT

Joseph Durante
President and Chief Executive Officer

Ryan Michaluk
Vice President Finance and Chief Financial Officer

Chris Wigg
Vice President Exploration

Shaun Wyzykoski
Vice President Engineering

Craig Haavardsrud
Vice President Land

Norm Hopkins
Senior Explorationist

Jennifer Kennedy
Corporate Secretary

DIRECTORS

Joseph S. Durante

Brian J. Mellum

Abdel F.Z. Badwi

Peter Salamon

Charles W. Berard

Brad Munro

STOCK EXCHANGE LISTING

TSX Venture Exchange - FMT

ANNUAL GENERAL MEETING

Friday, July 22, 2005 at 11:00 A.M.
Metropolitan Centre, Strand/Tivoli Room
333 – 4 Avenue SW
Calgary, Alberta

AUDITORS

Deloitte & Touche LLP
Calgary, Alberta

BANKERS

National Bank of Canada
Calgary, Alberta

TRANSFER AGENT

CIBC Mellon Trust Company
Calgary, Alberta

LEGAL COUNSEL

Macleod Dixon LLP
Calgary, Alberta

ENGINEERS

AJM Petroleum Consultants
Calgary, Alberta

Gilbert Laustsen Jung Associates Ltd. Petroleum Consultants
Calgary, Alberta

ABBREVIATIONS

CDN$	Canadian dollar
US$	United States dollar
ARTC	Alberta Royalty Tax Credit
bcf	Billions of cubic feet
boe	Barrels of oil equivalent
boe/d	Barrels of oil equivalent per day
bbl	Barrels of oil or natural gas liquids
bbl/d	Barrels of oil per day
GJ	Gigajoule
mbbls	Thousands of barrels
mboe	Thousands of barrels of oil equivalent
mmboe	Millions of barrels of oil equivalent
mmbtu	Millions of British Thermal Units
mcf	Thousands of cubic feet
mcf/d	Thousands of cubic feet per day
mmcf	Millions of cubic feet
mmcf/d	Millions of cubic feet per day
mstb	Thousands of stock-tank barrels
NGL	Natural gas liquids
WTI	West Texas Intermediate

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